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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL UPDATE APRIL 14 - 18

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#### EUROS 10 BILLION FISCAL STIMULUS PACKAGE ANNOUNCED AND APPROVED

[1](#)1. (U) While in Washington for the IMF/World Bank spring meetings, Second Vice President and Finance and Economy Minister Solbes announced that the government would quickly use an amount equal to half of the 2007 budget surplus (10 billion euros) to stimulate the economy in 2008. Six billion euros will be returned to taxpayers directly - each taxpayer will get a euros 400 tax cut per a PSOE electoral promise, and a wealth tax will be eliminated. Two billion euros will go to guarantee mortgages on subsidized housing. Two billion euros will be used to guarantee additional bank credits for small and medium-sized companies. The Council of Ministers approved the measures on April 18. It also approved a 350-euro monthly increase for three months for certain unemployed workers, as well as the hiring of 1,500 staff to help the unemployed retrain and/or find new jobs. The GOS is also working on an agreement with lenders that would eliminate commissions on lengthening mortgages, and it has eliminated government charges on these transactions. The measures approved by the Council will cost approximately 8 billion euros in 2009. (El Pais, 4/14; Council of Ministers, 4/18; AFP, 4/18)

#### SOLBES INSISTS HE IS IN CHARGE OF THE ECONOMY

[1](#)2. (U) With the appointment of Miguel Sebastian, the former head of the presidency economic office and unsuccessful 2007 Madrid mayoral candidate, as Minister of Industry, Tourism and Trade, there has been lots of press speculation that Solbes, authority in the economic arena has undermined by President Zapatero. Solbes told journalists emphatically that that was not the case. "I am the Vice President. It is up to me to take the big economic decisions, and I will continue doing so during this legislature." Solbes is generally considered more fiscally conservative and less interventionist than Sebastian. (Comment: At least with respect to big macroeconomic policy decisions, Solbes will likely continue to prevail. However, the energy portfolio remains under the control of Sebastian's ministry despite

speculation that Solbes had wanted it. This suggests that the GOS will work to ensure that Iberdrola is not taken over by the majority state-owned French utility EDF.) (El Pais, 4/14)

#### DROUGHT LEADS TO "WATER WAR"

13. (U) In what one newspaper is calling the "Water War," Spain's severe drought conditions along its Mediterranean coast are causing political tensions to heat up between autonomous communities and the GOS. For the country as a whole, the last six months have been the driest such period in 60 years. Barcelona, whose reservoirs have dipped below 20 percent of capacity, has further restricted water use and will soon begin importing water by ship from France and other regions in Spain. This week, in an effort to provide relief to Catalonia, the GOS approved the urgent construction of a 62-kilometer pipeline to divert water from the Ebro River to Barcelona. The decision came after the GOS denied the same for other regions. The Partido Popular government that held office until 2004 had planned to build a series of canals to transfer water from the Ebro to the agricultural areas of Valencia, Murcia and Almeria. When the PSOE took office, it repealed the plan, citing environmental concerns. Environmentalists have criticized such water transfer plans as well, citing the need to first reduce consumption of water by increasing its cost.

14. (U) In an apparent effort to save political face, the GOS referred to the move this week as a "temporary measure" that was not a "transfer" of water and was aimed to cover the period until the scheduled June 2009 opening of a Barcelona desalinization plant. The GOS' semantics have drawn criticism, with pro-government El Pais calling the project "the pipe that is not a transfer." As expected, the decision has also been challenged by the opposition. The PP is

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demanding that President Zapatero explain to Congress his changed view on water transfers. The Presidents of Valencia and Murcia (both PP members) announced their intention to bring the matter to the Constitutional Court. While the Aragon region also objects to the water diversion, its PSOE-affiliated President has toed the party line and not objected to the decision. Environment, Rural Development and Marine Affairs Minister Espinosa has invited representatives from the autonomous communities to an April 19 meeting in Madrid to explain the Council of Ministers April 18 decision to approve the water transfer to Barcelona.

#### NUCLEAR ACCIDENT COVERUP SPARKS CONTROVERSY

15. (U) The coverup of a November leak at the Asco I nuclear power plant in Tarragona province has led to the firing of the plant supervisor and renewed calls by opponents of nuclear power for the closing of all Spain's nuclear plants. The accident occurred when 50 liters of radioactive water were dumped into a pool from where water vapor was sucked into the plant's chimney and disseminated to the surrounding area. About 150 particles of radioactive cobalt, manganese, zirconium, and other metals were dispersed into the air, although 95 percent settled within the plant compound. The managers of the plant, which is jointly owned by Endesa and Iberdrola and operated by Endesa, learned of the leak March 14. They did not notify Spain's Nuclear Security Council (CSN) until early April, after Greenpeace had announced that contamination had been found in the area around the station. Even then, they downplayed the incident, leading the CSN to classify it as a level 1 on the International Nuclear Incident Scale (1 is an anomaly and 7 a grave accident). However, the CSN's deputy told reporters April 14 that the CSN had been deceived, that radioactivity around the plant was 100 times greater than what the plant managers had said, and that the accident was one of Spain's four worst ever.

The CSN reclassified the event as a level 2, or an "incident."

¶6. (U) The severity of the incident itself still does not appear to be overly alarming. The CSN has said that even the higher levels of radiation should not affect nearby residents. Plant workers are being tested, and students who visited the plant have been offered tests. However, the coverup has been strongly criticized, and the firing of the plant supervisor may not be enough to satisfy critics. Newspapers reported that plant management continued to allow schoolchildren to tour the plant after it knew of the radiation. Mayors of fourteen nearby municipalities have insisted that Endesa dismiss all those responsible for the cover-up. A labor union blamed the plant's use of subcontracted workers, and school officials and parents have expressed concern about the students who toured the plant. The furor will not make it any easier for those who are trying to convince the ruling PSOE to rethink its plans to gradually close Spain's seven nuclear power plants. (El Pais, 4/16; Metro, 4/16 and 4/17)

#### CAJA MADRID BUYS FLORIDA BANK

¶7. (U) The savings bank, which is Spain's fourth largest financial institution (behind Santander, BBVA, and La Caixa), is buying City National Bank of Florida for USD 927 million. City National is the sixth largest bank in Florida. This acquisition is part of Caja Madrid's "Plan 2010" overseas expansion drive. It already has corporate offices in Miami, Lisbon, Dublin and Vienna. City National has euros 1.75 billion in assets, 421 employees, and 19 branches. (ABC, 4/14)

#### REPSOL STAKE IN LARGE OIL FIND OFF BRAZIL

¶8. (U) After Brazil's chief petroleum regulator confirmed the existence of a giant oil field off the coast of Sao Paulo, Repsol's stock price rose by 11 percent in the Spanish market. Repsol owns 25 percent of the group responsible for exploring the "Carioca" block in the Santos basin, which is said to potentially contain 33 billion barrels of oil and possibly be the world's third largest field. Industry representatives have urged caution over the find, which is not yet definitive, and have noted that oil production would not begin for several years. (El Pais 4/15 and 4/16, Rio de Janeiro 00091)

#### SALE OF PIRATED SOFTWARE REMAINS A PROBLEM

¶9. (U) Pirated software costs the industry 690 million euros annually and accounts for almost 40 percent of the software

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sold in Spain, according to a Microsoft study. A Microsoft spokesman faulted the lack of "sensitivity" of consumers and distributors about the real value of software. Although the overall Spanish piracy index reportedly dropped by 7.7 percent in 2007, two regions registered notable increases, Andalusia with 11.2 percent and Valencia with 7.1 percent. More than half of the software installed in these regions is pirated. Madrid's piracy index has fallen by 12 percent in a year, to 28 percent. (Comment: Software piracy remains high in Spain, although the Business Software Alliance (BSA) does not estimate it to be higher than in, for instance, France. This year, the BSA did not recommend that Spain be placed on the Special 301 Watch List, because it says it is receiving satisfactory cooperation from the Spanish government.) (Metro, 4/16)  
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